



Australian Bureau of Statistics

1301.0 - Year Book Australia, 1937

ARCHIVED ISSUE Released at 11:30 AM (CANBERRA TIME) 01/01/1937

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FINANCIAL CRISES (1929)

PUBLIC FINANCE

The Financial Crises

1. General. - It is not within the functions of the Official Year Book to attempt a full record of the financial and economic crisis which began to develop in Australia towards the end of 1929, and space does not permit of a presentation of the whole of the statistical and financial data relevant to the subject. The principal documents relating to the crisis have been conveniently put together, with some brief comment, by Professors B. G. Shann and D. B. Copland in a series of compact volumes entitled **The Crisis in Australian Finance 1929 to 1931**, **The Battle of the Plans**, **The Australian Price Structure 1932**, and **Cross Currents in Australian Finance**, the co-editor with Professor Copland of the latter volume being C. V. Janes. These may be supplemented by the official reports of the Premiers' Conferences, especially those dealing with the Conferences of 25th May to 11th June, 1931 (P.P. No. 236), 28th January to 5th February, 1932 (P.P. No. 12), 14th to 21st April, 1932 (C.3847), 28th June to 8th July, 1932 (F.1969), and 8th to 14th June, 1933 (F.2184). Particular reference may be made to the Treasury Officers' Report on the Budgets of 1931 - 32 and 1932 - 33 (F.1969); and to the Report of the Committee appointed to make a "Preliminary Survey of the Economic Problem" (C.3847). Discussions of the economic and financial issues will be found in the "Economic Survey of Australia" published in the **Annals of the American Academy of Political and Social Science** (Philadelphia) for November, 1931; in the Circulars of the Bank of New South Wales (Sydney) ; in Nos. 11 to 17 of the **Economic Record** (Melbourne) and in its Special Supplement (October, 1932) containing the "Papers on World Economic Influences read before Section G of the A.N.Z.A.A.S. (Sydney Congress, August, 1932) ; in **Australia in the World Depression**, by Dr. E. R. Walker (1933) in **Australia in the World Crisis 1929 - 1933**, by Professor B. B. Copland (1934) ; and in **Economic Planning in Australia 1929 - 1936**, by W. B. Maclaurin (1937).

2. Elements of the Situation. - The elements of the situation before the depression began were:

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1. A national income of about £100 per head in 1928 - 29.
2. Oversea interest obligations, fixed for the most part in sterling, of about £5 per head.
3. Imports of about £27 per head in 1926 - 27, falling to £23 per head in 1928 - 29.

4. Exports of commodities, which for some years had failed to pay for imports, amounting in 1928 - 29 to £22 per head.
5. A standing net debit of interest obligations and balance of visible trade, which had been met by overseas long-term loans averaging about £5 per head for some years, helped by some investment of private capital from overseas.
6. Deficits in Government finance for the Commonwealth and all States, which for 1929 - 30 amounted to about £1 15s. per head.

On this situation impinged: -

1. A world fall in commodity prices, with consequent general depression and increase in the burden of fixed money claims which were estimated for Australia at about £20 per head in 1928 - 29.
2. A rapid fall in Australian export prices, which, in gold, had declined by the end of 1931 to about 32 per cent. of the 1927 - 28 level, and to 58 per cent. even in Australian currency; while, at the same time, interest obligations remained fixed in sterling for the most part, and import prices fell very much less than export prices.
3. A total cessation of overseas long-term loans, which had in recent years roughly balanced interest obligations overseas.
4. Government deficits, which had been about £1 15c. per head in 1929 - 30 rose to over £4 per head in 1930 - 31, and threatened to be £7 per head in 1931 - 32, with consequent further loss of business confidence and intensification of the depression.

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3. Attempts to meet the Situation. - A brief diary of the attempts to meet this situation may be set out as follows: -

April, 1930. - Special customs surcharges of 50 per cent, of the amount of duty already imposed were placed on certain items of import; and the importation of 78 items was prohibited by proclamation.

July-August. - *Sir Otto Niemeyer*, representing the Bank of England, visited Australia at the invitation of the Commonwealth Government, and made a statement on severely deflationary lines to a Conference of Premiers in Melbourne (see **The Crisis in Australian Finance**, p. 18). The Premiers resolved to balance budgets in 1930 - 31.

22nd January, 1931. - The Commonwealth Court of Arbitration after a protracted hearing made a comprehensive survey of the economic position (see **The Crisis**, pp. 102 - 145), and awarded a 10 per cent. reduction in all railway wages which were the subject of the case, operative from the 1st February, 1931. This judgment was followed by others, making the same reduction in practically all wages and salaries which were determined by Federal award. This reduction of 10 per cent. was in addition to the "automatic" adjustment to falling prices, and made the total reduction over 20 per cent, on the wage rates of 1929. Wages under State jurisdiction were gradually brought into line, except in New South Wales where no adjustment was made in State awards for some time.

January to February: - Premiers' Conference, Canberra and Melbourne. - A committee of Treasury officers presented a report analysing the financial and economic position. The report preserved much of the deflationary tone of *Sir Otto Niemeyer's* statement, and commented

adversely on the high exchange rate. Curtailment of Government expenditure was strongly urged, but no definite reductions were proposed. This report was signed by four of the State Under-Treasurers only.

Mr. Lang (Premier of New South Wales) proposed as an alternative the reduction of internal interest on Government bonds to 3 per cent., the cessation of oversea interest payments pending agreement for a similar reduction, and the substitution for the gold standard of "currency based on the wealth of Australia".

The Conference rejected Mr. Lang's motion and resolved to aim at budget equilibrium in three years, reducing salaries and wages on a cost of living basis, taxing interest on Government bonds at the source and putting on the banks the responsibility of reducing interest rates.

January. - The Unpegging of the Exchange. - Australian exchange with sterling had been held by the banks at 8½ per cent. discount since 9th October, 1930. On 5th January, 1931, on the initiative of the Bank of New South Wales, the rate was allowed to move up until it reached 30 per cent. on 29th January, 1931, and it was held at that figure notwithstanding some competition at higher rates by "outside" dealers.

2nd April. - Letter from the Commonwealth Bank to the Chairman of the Loan Council, stating that it was unable to finance Governments beyond the outstanding £25,000,000 in London, and a limit of £25,000,000 in Australia. This limit in Australia was bound to be, and was, in fact, reached within three months.

25th May to 11th June. - Premiers' Conference, Melbourne. - The Conference had before it a report of a Committee of economists and Treasury officers, of which Professor D. B. Copland was Chairman. This report proposed a definite scheme of reduction expenditure of all kinds, including wages, salaries, pensions and interest. The reduction aimed at was from 20 to 25 per cent, below the 1928 - 29 level, based on the actual reduction in wage rates in Federal awards of something over 20 per cent. The aim of the proposals was to reduce total Government deficits in 1931 - 32 from a prospective £40,000,000 to some figure not much above £10,000,000. This report, which is in full at the end of this section, formed the basis of the "Premiers' Plan," adopted on the 10th June, 1931.

19th June. - Gold Position. - The minimum proportion of gold to be held against notes was reduced from 25 per cent. to 15 per cent., with provision for gradual restoration over a term not exceeding five years to 25 per cent. This amendment of the Commonwealth Bank Act was put through by general consent to permit further shipments of gold to meet a short term debt in London.

26th June. - Reduction of Bank Deposit and Advance Rates. - The Commonwealth Bank and the trading banks reduced by 1 per cent. the rates on new fixed deposits or renewals.

1st July. - The Commonwealth Bank reduced rates for advances by 1 per cent. The other trading banks by successive small steps fell into line.

The Commonwealth and State Savings Banks reduced interest rates by 1 per cent., except in Victoria where successive reductions of one-half, one-quarter, and again one-quarter of 1 per cent. were made by the State Savings Bank.

July - August. - Conversion Loan. - A conversion loan was launched to reduce the rate of interest on all internal Government debt by approximately 22½ per cent.

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The results of the conversion plan will be best understood by consideration of the following figures:

	£
Total Internal public debt at 31st July, 1931	557,998,904
Conversion applications notified	510,331,153
Dissents notified	16,655,769
Conversion effected automatically (in absence of notification of either conversion or dissent)	31,011,982
	557,998,904

The amount held by dissentients was thus a little less than 3 per cent. of the total outstanding public debts.

The annual savings in interest to all the Governments for a full year in consequence of the conversions effected were calculated to be about £6,500,000, but some part of this relief was to be passed on to settlers and other debtors to the State Governments.

31st July. - A reduction in the rate of interest on Treasury Bills from 6 per cent. to 4 per cent, was announced.

10th to 14th August, and 1st to 12th September. - Premiers' Conference, Melbourne. The several Governments reported their attempts to adjust their budgets to the "Premiers' Plan." After some allowance had been made for unforeseen contingencies, the new budgets appeared on the whole to be in fair conformity with the "Plan," though for some of the State Governments there was an appreciable gap. Measures were agreed upon for applying compulsion to the small amount of Debt which had not been converted, and provision was made for the redemption from the National Debt Sinking Fund of securities held by persons in necessitous circumstances.

21st September. - Great Britain ceased payment in gold, and sterling depreciated Over 20 per cent. in terms thereof, thus making a corresponding reduction in the real burden of interest payments by Australian Governments, which are for the most part fixed in sterling. Australian exchange was kept for the time at the old discount of 30 per cent. with sterling, so that no direct relief to Australian budgets ensued.

30th October. - The Commonwealth Government made provision for the payment of a bounty of 4½d. per bushel on wheat produced in the 1931 - 32 season.

27th November. - Further reduction in bank deposit rates of one-half and one-quarter of one per cent, on short and long-term deposits respectively.

3rd December. - Exchange. - Commonwealth Bank Board resolved to take responsibility for the regulation of sterling exchange and to announce rates for the coming week every Friday. The rate was fixed at £125 for £100 sterling, in place of £130, which had been the official bank rate since 29th January. It may be noted that sterling in the preceding week had depreciated from about 20 per cent. discount on gold to about 30 per cent. For some weeks the banks had been rationing their purchases of exchange, with the result that the "open market" rate had fallen considerably below the "carded" rates.

January, 1932. - Letter from the Commonwealth Bank to the Chairman of the Loan Council

calling attention to the growth of the floating debt, and suggesting that "national finance " might be refused.

28th January to 5th February. - Premiers' Conference, Melbourne. - A serious drift in State finances was revealed. After receiving assurances that further economies would be sought, the Commonwealth Bank agreed to provide further assistance for the small States. During the meetings. New South Wales announced its default on interest payments due in London, New York and Australia. The payments were met, after a short delay, by the Commonwealth Government.

February. - A beginning was made in the revision of the tariff and the removal of prohibitions on imports.

8th March. - Further reductions in bank deposit rates of one-half per cent. on 3 months' deposits and one-quarter of one per cent. on 6 and 12 months' deposits.

12th March. - The Financial Agreements (Commonwealth Liability) Act resolved all doubts as to the liability of the Commonwealth for debts taken over in pursuance of the Financial Agreement.

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March to May. - The Financial Agreements Enforcement legislation was enacted giving the Commonwealth drastic powers to attach State revenues and other moneys in the event of failure by a State to pay to the Commonwealth moneys due under the Financial Agreement. The High Court decided in favour of the Commonwealth on a writ for recovery of interest paid on behalf of New South Wales. The New South Wales Government then contested the validity of the Enforcement Acts, which were upheld by the High Court, leave to appeal being refused.

13th April. - A Committee of Experts appointed by the Commonwealth Government to make a "Preliminary Survey of the Economic Problem" issued its report, recommending the restoration of economic balance by a combination of reduced costs and a high exchange rate, the former to be secured in part by the general application by State wage-fixing authorities of the 10 per cent. "cut" in real wages.

The chief measures of more immediate alleviation recommended were (i) systematic revision of the customs tariff; (ii) construction of public works when the reductions in on the costs of construction made it possible for such works to earn interest; (iii) advances on debentures to large-scale enterprises for which three-quarters of the needed capital had been privately subscribed; and (iv) the settlement of married recipients of sustenance such as cottages on established farms.

14th to 21st April. - Premiers' Conference, Melbourne. - It was decided to raise a loan 24 month of £2,400,000 for expenditure on unemployment relief works.

May. - The trade union unemployment percentage reached the peak of 30 per cent. Mr. Lang was dismissed by the Governor of New South Wales, and the Victorian Labour Government was defeated at the elections. A widespread agitation for a higher exchange rate commenced, and lasted for some months.

11th June. - The State Labour Party was defeated in the New South Wales elections, while in Queensland the Labour Party was victorious.

16th and 17th June. - The New South Wales Industrial Commission was reconstituted. The Commonwealth Court of Arbitration refused an application for restoration of the special 10 per cent, reduction in wages.

21st June. - The Commonwealth Bank Act was amended to allow part of the note reserve to be

held in English sterling. Subsequently, £G10,000,528 of gold was shipped overseas from the gold reserve of the Australian Notes Fund.

May-June. - Further reductions in bank deposit rates of one-quarter and one-half of one per cent, on 12 and 24 months' deposits, respectively.

30th June. - Balance of Payments. - The balance on current account, excluding the movement of monetary gold, was estimated to be in Australia's favour by approximately £7,276,000 sterling in 1931-32, as against a debit balance in 1930-31 of approximately £16,732,000 sterling.

28th June to 8th July. - Premiers' Conference, Canberra and Sydney. - The Conference unanimously affirmed its adherence to the "Premiers' Plan" of 1931. The estimated deficits for 1931-32 were reported to the Conference, and, with the notable exceptions of New South Wales and Queensland, they disclosed a satisfactory conformity with the "planned" deficits. The Conference agreed to reduce the total deficits in 1932-33 to £9,000,000 (inclusive of £6.45 millions for sinking funds), and arranged for a three-year unemployment relief works plan involving the ultimate expenditure of £15,000,000. Of this amount, £7,000,000 was to be spent in 1932-33, in addition to the ordinary works programme of £6,000,000.

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1st July. - The Commonwealth Bank reduced its rate for advances by a further one-half of one per cent., bringing the rate to 5 per cent. The average reduction by the trading banks, since 1st October, 1931, was stated to be 1 per cent. Further reductions were anticipated by prominent bankers.

21st July to 19th August. - Imperial Economic Conference at Ottawa.

26th August. - The New South Wales Industrial Commission reduced the basic wage for adult males from £4 2s. 6d. to £3 10s., and for adult females from £2 4s. 6d. to £1 18s.

1st September. - The Commonwealth Budget provided *inter alia* for a further reduction of pensions and salaries, decreased customs duties, the final removal of import prohibitions, exemptions from Sales Tax and primage, and suspension of the gold bounty, which had been introduced on 1st January, 1931.

September to November. - Wool prices showed some improvement; share prices advanced substantially; the value of imports and Commonwealth customs revenues increased steadily. Early in October all the 4 per cent. Commonwealth bonds reached par, after allowing for accrued interest.

4th October. - A conversion loan was issued in London at 3½ per cent., issue price £97½, maturing 1936-37, to replace £12,360,000 of 5¾ per cent. N.S.W. stock maturing in October, 1932.

14th October. - Revision of the Customs Tariff to validate the Ottawa Agreement. The margin of preference under the British Preferential Tariff was considerably widened, mainly by means of increased duties on a wide range of foreign manufactures.

24th to 29th October. - Premiers' Conference, Melbourne. - It was decided to place on the Australian market a loan of £8,000,000 at 3½ per cent., maturing in 1942, for Unemployment Relief and the funding of Treasury Bills. A reduction in the rate of interest on Treasury Bills from 4 per cent. to 3½ per cent. was announced.

1st November. - Further reductions in bank deposit rates of one-quarter of one per cent. for all terms, bringing the rates down to 2¼, 2¾, 3 and 3¼ per cent. on 3, 6, 12 and 24 months' deposits respectively.

5th December. - In view of the improved revenue position, the Commonwealth Government made substantial reductions in land and income (property) taxes, further exemptions from sales tax, increased the payments to certain Invalid and Old-age pensioners, and provided from revenue £2,000,000 for assistance to wheat-growers and £250,000 for assistance to other primary producers.

January, 1933. - Considerable improvement in the unemployment situation was:1 shown in the trade union percentages for the last quarter of 1932. This improvement has continued.

20th January. - A reduction in the rate of interest on Treasury Bills from $3\frac{1}{2}$ per cent. to $3\frac{1}{4}$ per cent. was announced.

4th February. - Loan Council agreed with the Commonwealth Bank that future requirements for loan programmes should be raised on the open market.

7th February. - Further reductions in bank deposit rates of one-quarter of 1 per cent. for all terms, bringing the rates down to 2, $2\frac{1}{2}$, $2\frac{3}{4}$ and 3 per cent, on 3,6,12 and 24 months' deposits respectively.

17th February. - *Further* reduction in the Treasury Bill rates from $3\frac{1}{4}$ per cent, to $2\frac{3}{4}$ per cent.

23rd February - A conversion loan was issued in London at 4 per cent., issue price par, maturing 1955-70, to replace £9,621,000 of 4 per cent. stock maturing in July, 1933.

30th May. - Appointment of Commonwealth Grants Commission to inquire into matters relating to grants of financial assistance to the States.

A conversion loan was issued in London at $3\frac{1}{2}$ per cent., issue price £99, 1maturing in 1937-38, to replace £11,400,000 of $6\frac{1}{2}$ per cent. stock with optional rights of redemption.

31st May. - Lists closed for internal loan of £5,000,000 for State public works, issued at $3\frac{3}{4}$ per cent. at par, maturing in 1942, with subscriptions amounting to £8.4 millions.

1st June. - A further reduction in the Treasury Bill rate from $2\frac{3}{4}$ per cent. to $2\frac{1}{2}$ per cent. was announced.

8th to 14th June. - Premiers' Conference, Melbourne. - By arrangement with the Loan Council, the Commonwealth Bank agreed to finance revenue deficits in 1933-34 by short-term loans to the amount of £8.5 millions, subject to reduction to the extent of any relief obtained by the States from conversion of overseas loans.

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30th June. - The Commonwealth Court of Arbitration ordered the restitution of the 10 per cent. reduction in real wages in the Glass Industry; subsequently extending the restitution to the Paper and Pulp, Jam and Fruit Preserving, and certain other industries.

13th July. - A conversion loan was issued in London at 4 per cent., issue price £99, maturing in 1943-48, to replace £17,221,000 of 6 per cent. stock with optional rights of redemption.

14th September. - A conversion loan was issued in London at $3\frac{3}{4}$ per cent., issue price £98, maturing in 1948-53, to replace £20,951,000 of 6 per cent. and $5\frac{3}{4}$ per cent, stock with optional rights of redemption.

4th October. - The Commonwealth Budget provided *inter alia* for substantial remissions of

direct and indirect taxation, including further exemptions from Sales Tax and reduction of the rate of tax from 6 to 5 per cent., reduction of special tax on income from property from 10 to 5 per cent., reductions in the income taxation on Life Assurance and other companies, and partial restoration of Financial Emergency reductions Invalid, Old-age and War Pensions, Public Service salaries and contributions to the Public Service Superannuation Fund. The total relief of taxation was estimated to be at the rate of £7.5 millions annually. At the same time the Government signified its intention of giving effect to that part of the report of the Tariff Board on the protective incidence of primage and exchange which applied to protected goods entitled to admission under the British Preferential Tariff.

16th November. - An internal loan of £10,000,000 was issued at 3½ per cent., issue price £99, maturing in 1943, half for State public works and half for the purpose of retiring Treasury Bills.

30th November. - The price of wool, which had been advancing rapidly for some months, reached nearly 15d. per lb. (greasy merino, standard average). Wheat prices continued to fluctuate at very low levels. Export prices as a whole, in Australian currency, had recovered to 72 per cent. of their 1927-28 level.

4th December. - Flour Tax of £4 5s. per ton imposed to provide portion of revenue necessary to assist necessitous farmers.

5th December. - A conversion loan was issued in London at 3¾ per cent., issue price £99, maturing in 1946-49, to replace £16,647,000 of 5½ per cent. and 5 per cent. stock with optional rights of redemption.

The Commonwealth Government provided £3,000,000 for assistance to wheat-growers to be financed partly from a temporary sales tax on flour of £4 5s. a ton, and in part from other sources. The special tax on incomes from property was raised from 5 to 6 per cent. and the customs duty on imported tobacco raised by 6d. a lb.

January, 1934. - During 1933, Unemployment statistics disclosed by Trade Union returns showed steady progressive improvement. Percentage unemployed in December quarter - 23 per cent. - lowest level since August, 1930.

2nd January. - Wool realized increased prices at first of 1934 sales. The average prices realized were the highest since September, 1928.

22nd February. - Conversion in London of £21,636,550, 5½ and 5 per cent. loans. New issue 3½ per cent. at £97, maturing 1954-59.

1st April. - Treasury Bill rate reduced from 2½ per cent. to 2¼ per cent.

12th April. - **Bank** deposit rates further reduced to 2¼, 2½ and 2¾ per cent. for 6, 12 and 24 months respectively.

31st May. - Provisions of 1933 Flour Tax Act ceased to operate.

5th June. - Internal Loan of £12,234,000, 3¾ per cent. at £98 10s., repayable at par in fourteen years, raised for Commonwealth and State public works and funding of Treasury Bills. The terms of this flotation were the lowest ever offered for a Commonwealth loan.

19th June. - Commonwealth Bank Board agreed to finance Revenue Deficits for 1934-35 to a limit of £5,880,000, subject to the funding of an equivalent amount of Treasury Bills during the year. This amount was subject to reduction by any additional special grants from the Commonwealth over the 1933-34 basis.

25th June. - The Commonwealth Bank Board announced its withdrawal of the guarantee of payment and the undertaking that treasury bills would be rediscounted before maturity at the fixed rate in regard to new issues and re-issues after 30th June. Rediscounting will still be possible but at the rate fixed by the Commonwealth Bank at the time of the transaction.

24th July. - Commonwealth Budget for 1934-35 provided **inter alia** for further remissions in indirect taxation including additional exemptions from Sales Tax and reductions in primage, concessions in wireless licence fees and telephone charges; further restoration in part of public service salaries; more liberal war pensions, repatriation, old-age and invalid pensions, and maternity allowance benefits; assistance to primary producers in the form of a fertilizer subsidy; assistance to fruit-growers and other primary producers; and a special non-recurring grant of £2,000,000 to the States.

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8th August. - Bank deposit rates for three months terms reduced from 2 per cent. to 1½ per cent.

11th October. - Further reduction in Bank deposit rates of one-quarter of 1 per cent. to 2, 2¼, and 2½ per cent. respectively for 6, 12 and 24 months' terms.

15th October. - Treasury Bill rate reduced from 2¼ to 2 per cent.

8th November. - Conversion loan of £14,601,806 issued in London at £99, maturing in 1964-74, interest at 3¼ per cent.

20th November. - An internal loan of £15,000,000 raised for Public Works and funding of Treasury Bills issued at 3 per cent. at £99 15s., maturing in fourteen years.

8th December. - Commonwealth 5 per cent. stocks in New York reached par.

13th December. - Flour tax re-imposed. Rate of tax £2 12s. 6d. per ton.

17th December. - Further reduction of Bank Deposit rates - three and six months terms reduced to 1 and 1½ per cent. respectively. Treasury Bill rate on new issues and re-issues to be reduced to 1¾ per cent. from 1st January, 1935.

January, 1935. - Evidence of improved financial conditions was given in the increase in bank clearings and the decrease in unemployment during 1934. The total of bank clearings (including Treasury Bills) amounted to £2,095,000,000, and was 8.4 per cent. higher than the corresponding figure for 1933. Unemployment statistics disclosed by the Trade Union returns continued to show progressive improvement. Percentage unemployed in December quarter, 18.8 per cent., lowest level since May, 1930.

7th January. - Flour Tax commenced to operate. Rate of tax, £2 12s. 6d. per ton.

18th January. - Conversion loan of £22,384,000 issued in London at par, interest at 3¼ per cent., repayable 1956-61. Largest single conversion operation.

2nd February. - Commonwealth Government announced £12,000,000 grant to States over three years for the purpose of adjusting farmers' debts by means of composition arrangements.

6th March. - *The* price of gold in Australian currency reached the new high level of £9 4s. 4d. per fine ounce.

13th March. - The Wheat Commission reported that production should be adjusted to find a now

economic equilibrium at the existing world parity, as no permanent rise in price could logically be expected. The Commission further recommended that the wheat industry should be assisted through the application of a home consumption price, that a Commonwealth Board should be appointed to supervise overseas sales, and that a plan of debt adjustment should be undertaken over a period of seven years.

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30th March. - **New** tariff schedule announced. Reduction in duties on apparel and stockings, farm and engineering machinery, and certain classes of motor body panels made in Great Britain.

20th May. - **The** Commonwealth Bank Board agreed to finance Revenue Deficits in 1935-36 to the limit of £4,730,000, subject to the funding of an equivalent amount of Treasury Bills during the year.

11th June. - Internal loan of £12,500,000, 3 3/8 per cent, at £99 10s. repayable at par in 1949. Raised for Commonwealth and State public works and funding of Treasury Bills.

30th June. - Public Debt of Commonwealth and States (including short-term debt totaled £1,242,115,000 - Commonwealth, £394,151,000, and States, £847,964,000 Net increase in 1934-35, £19,556,000, or 1 .6 per cent.

24th July. - Conversion loan of £13,470,000 issued in London at 3 per cent, at par, repayable 1939-41. Annual saving in interest and exchange of £26,000 per annum.

23rd September. - Commonwealth Budget for 1935-36 provided **inter alia** for reduction from 6 per cent. to 5 per cent. of super tax on property income; extension of the list of commodities exempted from Sales Tax; some remission of primage duty and a reduction in excise on tobacco of local origin; further restoration in part of public service salaries; extension of eligibility for war pensions and repatriation benefits; some expansion of the Defence programme; a contribution to interest and sinking fund payments on Municipal loans; and the provision of a bounty on oranges exported during the 1935 season.

24th September. - Report of Commonwealth Grants Commission recommended increased special grants for 1935-36, viz., South Australia, £1,500,000; Western Australia, £800,000; Tasmania, £450,000.

4th to 7th October. - Conference of Federal and State Ministers and Experts on the Wheat Industry. The conference approved in theory the application, of a home consumption price for wheat, the scheme to be superintended by the Commonwealth.

15th November. - Commonwealth Government appointed Royal Commission to inquire into and report upon the banking and monetary systems of the Commonwealth.

26th November. - **Internal** loan of £7,500,000, 3¾ per cent, at £99 15s., repayable at par in 1949, raised for Commonwealth and State public works and the funding of Treasury Bills. The optional privilege of tendering the Bonds at their par value for Commonwealth Probate purposes was withdrawn.

5th December. - An Act was passed to continue the operation of the Flour Tax in 1936 to contribute towards a bounty on the 1935-36 harvest.

31st December. - Trade Union unemployment percentage showed further reduction to 13.7 per cent. for fourth quarter.

7th January, 1936. - Conversion Loan in London of £21,657,000. New South Wales 5 per cent. stocks converted to 3 per cent., issued at £95 10s., maturing 1955-58.

17th January. - Internal conversion loan £2,393,000, Queensland £5 08s 9d. per cent., converted to 3 per cent. at par.

28th February. - Commonwealth Bank announced a public issue of £1,000,000 Treasury Bills at a discount rate of $1\frac{3}{4}$ per cent. The issue was unsuccessful, only £315,000 being subscribed.

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2nd March. - Bank of New South Wales increased interest rates on fixed deposits to 2 per cent. for three months, $2\frac{1}{2}$ per cent. for six months, $2\frac{3}{4}$ per cent. for twelve months, and 3 per cent. for twenty-four months. Bank of Adelaide made similar increases on the following day.

24th March. - Commonwealth Bank and the other Trading Banks increased rates on fixed deposits to conform to the rates offered by the Bank of New South Wales from 2nd March.

2nd June. - Internal loan of £9,000,000, $3\frac{3}{4}$ per cent., issued at £98 10s., repayable 1951-52, under-subscribed by £1,800,000.

8th June. - Conversion loan in London of £16,551,000, at $2\frac{3}{4}$ per cent., issued at £99, repayable 1941-43. The stocks converted were 3 per cent. Western Australia, $3\frac{1}{2}$ per cent. Commonwealth and South Australian, and $4\frac{1}{2}$ per cent. New South Wales and Western Australian. The loan was over subscribed.

25th June. - Import restrictions placed by the Government of Japan on imports from Australia, on the grounds that Australia had applied "unreasonable restrictive measures in respect of the importation of goods produced or manufactured in Japan".

4th August. - Excess of exports over imports for year 1935-36 was £ stg. 22,597,000. Wheat prices rose to a new six-year peak of 5s. per bushel for city parcels in Melbourne.

10th September. - Commonwealth Budget for 1936-37 introduced, providing for taxation remissions equal to £5,275,000 in a full year (£3,868,000 for remainder of current year); increased grants on account of Federal Aid Roads; restoration of public service salaries increases in certain classes of war pensions increased old-age and invalid pension rates, and liberalized conditions for maternity allowances. A surplus of £45,000 was anticipated for the year 1936-37.

11th September. - Commonwealth Grants Commission recommended the following grants for 1936-37: South Australia £1,330,000, Western Australia £500,000, and Tasmania £600,000. Sales Tax reduced from 5 per cent. to 4 per cent. and further exemptions granted.

18th September. - Further exemptions from primage duties promulgated.

28th September. - Price of gold rose by about 3s. to £A8 13s. 9d. per fine ounce.

26th September. - Remissions of sales tax, estimated at £1 million, on wide range of goods.

7th November. - Australian Loan Council decided to grant extra £1 million to Western Australia because of drought conditions in that State; loan programme for year increased by £750,000 to £22,450,00.

26th November. - Internal loan of £7,500,000, $3\frac{3}{4}$ per cent., at £97½, maturing on 25th November, 1951.

27th December. - **Settlement** of trade dispute with Japan.

3rd January, 1937. - Japan resumed buying at Sydney wool sales; prices advanced from 10 to 15 per cent.

13th January. - The percentage of unemployment amongst trade unionists declined to 10.7 in the last quarter of 1936.

28th January. - Life assurance sold during 1936 was a record for Australia.

6th April. - Wheat prices for city parcels touched 6s. a bushel in Melbourne.

27th April. - Internal loan £7,500,000. 3 7/8 per cent. at £99¼, maturing on 15th October, 1948.

10th May. - Export quota of 400,000 tons allotted to Australia under International Sugar Agreement.

9th June. - Conversion loan in London. £12,360,958 New South Wales stocks converted to 3½ per cent., issued at £96½, maturing in 1950-52.

23rd June. - Commonwealth Arbitration Court increased the Federal basic wage by an average of 5s. for males and 2s. 6d. for females.

30th June. - Deposits in the trading banks reached recorded total of £320,540,000 in the quarter ended June, 1937. Increase for the year was £22,460,000. Savings bank deposits were also a record at £230,851,000.

3rd August. - Australia's favourable balance for 1936-37 was £Stg. 35,470,000 compared with £Stg. 22,376,000 in 1935-36 and £Stg. 15,583,000 in 1934-35.

24th August. - Presentation of Report of the Royal Commission on Banking (see summary of recommendations on p. 979).

Fourth Report of the Commonwealth Grants Commission recommended the following State grants South Australia, £1,200,000; Western Australia, £575,000; Tasmania, £575,000.

27th August. - Commonwealth Budget presented. Provision of £1,531,000 for defence. Invalid and old-age pensions raised from 19s. to £1. No taxation reductions. Estimated surplus, £30,000.

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4. Effects on Government Finance. - The aggregate deficit for the year 1930-31 was £25,370,000, consisting of £10,760,000 for the Commonwealth and £14,610,000 (New South Wales, £7,850,000) for the States. For the year 1931-32 the original estimate was £41,080,000 divided almost equally between the Commonwealth and the States: this figure was subsequently reduced to £12,660,000 as a result of the conference proposals and later revisions. The actual deficits realized for 1931-32 and following years may be seen from the table below: -

DEFECITS. - COMMONWEALTH AND BOTH STATES, 1931 - 32 TO 1937 - 38
(£'000)

States, etc.	1931-32	1932-33	1933-34	1934-35	1935-36	1936-37 (a)	1937-38 (b)
New South Wales (b)	(c) 14,228	3,758	3,208	2,299	1,694	(+) 135	(+) 9
Victoria	1,608	842	769	151	116	(+) 21	(+) 12
Queensland	2,075	1,554	1,129	565	742	(-) 280	(-) 330
South Australia	1,063	1,009	844	(+) 36	(+) 149	(+) 139	(+) 4
Western Australia	1,558	864	789	167	(+) 88	(-) 371	(-) 129

Tasmania	272	55	48	119	130	(+) 45	(+) 3
Six States	20,804	8,082	6,787	3,265	2,445	(-) 311	(-) 431
Commonwealth	(+) 1,314	(+) 1,302	(+) 1,302	(+) 711	(+) 3,568	(+) 1,277	(+) 30
Grand Total	19,490	4,535	5,485	2,554	(+) 1,123	(+) 966	(-) 401

(a) Preliminary figures. (b) Exclusive of Metropolitan Board of Water Supply and Sewerage. (c) Excludes surplus of £890,000 Main roads Board, and includes £1,673,000 Interest and Exchange properly attributable to 1930-31. (d) Estimated deficit.

5. The Adopted Plan. - The full text of the Report prepared by the representatives of the various Australian Governments in connexion with the national financial position is as follows:

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CONFERENCE REPORT.

"The Governments of Australia have met in Conference to consider what measures are possible to restore solvency and avoid default. The national income was £650,000,000 in 1927-28. It fell to £564,000,000 in 1929-30, and a further fall to £450,000,000 in 1931-32 is estimated.

"This has reacted on Government finance.

"The total deficit of the seven Australian Governments will be £31,000,000 for the present financial year. The Governments are now going behind at the rate of £40,000,000 a year, in spite of reduction of expenditure amounting to £11,000,000 per annum since 1929-30. The deficits have been met hitherto by bank overdraft. The Commonwealth Bank has notified the Governments that the limit to that process has been reached. Early in July, Governments will have insufficient means to meet their obligations. Unless the drift be stopped, Public Service salaries and wages, pensions, and interest could not be paid in full. Public default would be followed by a partial breakdown in public utilities such as railways, and in private industry and trade. Revenue would come toppling down, and even half-payment might become impossible. With this prospect, everything that can be got from Government economy, from taxation and from reduction of interest, must be called on to bring the debit balance within manageable limits that can safely and practicably be covered for a time by borrowing.

THE PLAN

"The Conference has, therefore, adopted a plan which combines all possible remedies in such a way that the burden falls as equally as possible on every one, and no considerable section of the people is left in a privileged position. This sharing of the burden is necessary to make the load more tolerable; it is still more necessary, because only on this condition will it be possible to get the combined effort required.

"The plan has been adopted by the Conference as a whole, each part of which is accepted on the understanding that all the other parts are equally and simultaneously put into operation. It embraces the following measures: -

(a) A reduction of 20 per cent, in all adjustable Government expenditure, as compared with the year ending 30th June, 1930, including all emoluments, wages, salaries and pensions paid by the Governments, whether fixed by statute or otherwise, such reduction to be equitably effected;

(b) Conversion of the internal debts of the Governments on the basis of a 22½ per cent. reduction of interest;

- (c) The securing of additional revenue by taxation, both Commonwealth and State;
- (d) A reduction of bank and Savings Bank rates of interest on deposits and advances;
- (e) Relief in respect of private mortgages.

"These proposals require the greatest effort in economy and taxation which the Conference considers it safe to attempt. The effect will be still to have a gap of from £13,000,000 to £15,000,000 to be covered for a time by borrowing.

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REDUCTION OF EXPENDITURE

"The plan provides for Government economy on the basis of an immediate cut, averaging 20 per cent., for all Government wages and salaries below the level of 1929-30. To this will be added all saving that can be made from a strict scrutiny into the necessity of every item of Government expenditure.

"The same general principle is extended to all pensions provided out of Government funds - old-age and invalid pensions, war pensions, superannuation pensions and the maternity allowance. Over the whole field of this expenditure, the cut will amount to 16 per cent. The result will be, for each Government, savings as shown in the following table: -

FURTHER REDUCTIONS IN EXPENDITURE BEYOND THOSE PROVIDED FOR IN THE PRESENT ESTIMATES FOR 1931 - 32 - ADMINISTRATION AND PENSIONS.

	£
New South Wales	3,300,000
Victoria	880,000
Queensland	620,000
South Australia	400,000
Western Australia	560,000
Tasmania	110,000
	11,920,000

"The further savings to be made in accordance with the plan are, therefore, £11.92 millions for all Governments. The total reduction of expenditure (excluding Commonwealth pensions) compared with 1929-30 will be £21 .4 millions.

TAXATION.

"Taxation equally must make a maximum contribution. Ordinary direct taxation has nearly reached the limit in some States. The Commonwealth will raise an additional £1.5 millions by income tax, and what capacity for direct taxation remains will be left for a last reserve as the option of the several State Governments. The only possible substantial contribution must, therefore, be by taxes on consumption so designed as to add as little as possible to the costs of industry. It has been agreed that the sales tax and primage should be increased to give £6.4 millions of additional revenue. By upward the agreed economies and taxation, the position estimated for 1931-32 will be improved by £20,000,000, exclusive of savings on interest and additional State taxation.

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REDUCTION OF INTEREST.

"The reduction in the rate of interest is of urgent importance, for two reasons : -

1. "With the fall in prices since 1929, interest payments have become an intolerable load on all industry, and immediate relief is necessary for the restoration of industry maintain and employment. Government budgets are subject to the same strain, because revenue effect falls with falling prices, and thus interest relatively becomes a heavier burden. A reduction of interest will substantially reduce the deficit, which remains when economy and taxation have made their maximum contribution.
2. "Income from interest, particularly from Government bonds and bank interest, has hitherto suffered little loss. A reduction of interest will ensure that it will contribute equitably to the common effort to restore solvency. Unless the contribution is made, it is not to be expected that the wage-earner and the pensioner will acquiesce in very real hardships imposed on them by this plan.

"The second of these objects could be obtained by taxation, but taxation would give no relief to industry and no stimulus to employment. The Conference has, therefore, resolved on an appeal to all bond-holders to accept a reduction of 22½ per cent. in the effective rate of interest. This is to be done by a conversion loan, and the new securities will be exempt from the present super-tax of 7½ per cent, and from any additional taxation imposed on income from interest, in order to spread as evenly as possible the sacrifices required to restore solvency.

"Concurrently with the reduction of bond interest must go a reduction in private interest. This is a matter for the banks, who are co-operating to that end. Reductions of interest are being arranged between the Commonwealth Bank, the trading banks, and the Savings Banks which will result in the rapid reduction in the interest on money required for trade and industry. This reduction of interest will be supplemented by legislation giving relief to mortgagors. This legislation forms part of the plan.

"The lower rates of interest will greatly stimulate the general demand for credit, and the conference has the assurance of the Commonwealth Bank and the trading banks that, as a result of the operation of the plan, money will be readily available. With falling costs and ample supplies of credit, industry should then recover. This recovery will be stimulated by the maintenance of a free external exchange rate and the avoidance of any measures that will cause a sudden further fall in prices. A reduction of existing exchange rates will best be achieved on rising markets for Australian exports. If premature attempts are made to force the rates down earlier, they may bring about a further crisis by reducing export values once more.

SUMMARY

"The total effects of the plan on the budgets of 1931-32 may now be summarized. The total deficit as estimated for 1931-32 was £40,000,000. The extra economies agreed upon take £12,000,000 off this total. New Federal taxation embodied in the plan will contribute a net £7.5 millions, in addition to any increases which may be obtained by the States. The saving of interest by conversion will reduce the internal interest burden by £6.5 millions. As Governments will pass on this relief to their own borrowers - public bodies, public utilities, and private individuals - the net benefit to the budgets will be £5.5 millions. The combined effect will be a reduction of the deficit from £40,000,000 to £15,000,000. A further reduction of the deficit by £2,000,000 could be secured by levelling up the income tax in at least two States.

"These very substantial reductions will go far to restore confidence both at home and abroad.

This restoration of confidence, with the indirect effects of the fall in interest may be expected to restore revenue, even to some extent in 1931-32, and substantially in the years following. A rise in world's price for our exports would accelerate the upward movement, and this rise may reasonably be expected within the next two years. With any improvement in industry, the expenditure on unemployment sustenance will decline, with further relief to budgets.

"With this prospect, and confidence restored, there would be no difficulty in borrowing temporarily to meet the deficits as substantially reduced.

"The deficit includes £10.6 millions additional charge on overseas interest and external payments on account of exchange. If the exchange rate falls, there will be a corresponding decline in the deficit. On the other hand, if the present exchange rate is maintained, its full effect in keeping up local prices and incomes will have a beneficial effect on Government revenues.

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A UNITED EFFORT

Before the details of the plan were settled, and in order to make it effective, the Leaders of the Opposition in the Commonwealth Parliament were invited to attend the Conference. After full discussion of the whole plan, the following resolution was passed: -

The Conference, including the Leaders of the Opposition in the Federal Parliament, having most carefully considered the financial position of the Commonwealth and the States, and recognizing the national inability to meet existing Government charges, is unanimously of the opinion that to prevent national default in the immediate future, and a general failure to meet Government payments, all expenditure, including interest on Government securities and other interest, and expenditure upon governmental salaries and wages, pensions, and other social services must be substantially reduced.

These measures, drastic as they may appear, are the first essentials to the restoration of prosperity and the re-employment of our workless people. The necessary sacrifice is due to national inability to pay, and it must, therefore, be shared by all.

The Conference has accordingly provided a conversion plan under which bond-holders may make their contribution to the general sacrifice by themselves accepting the lower rate of interest which the existing position makes unavoidable.

The Conference therefore appeals to all sections of the people to recognize the position, and, in the interests of the nation, to accept the sacrifices which are involved.

A National Appeal Executive, consisting of the Prime Minister, the Leader of the Opposition, and the Chairman of the Commonwealth Bank Board, is appointed by this Conference to direct the conversion campaign.

CONCLUSION

1. "The plan agreed upon is an indivisible whole and the carrying out of any one part is dependent upon the carrying out of all parts.
2. "It involves sacrifices by every member of the community, and the Conference appeals to all sections of the people to recognize the position, and to accept these sacrifices as a national duty.
3. "To the bond-holder the plan involves a reduction of interest by 22½ per cent., but it safeguards the capital of the investor.

4. "To the Government, employee the plan involves a reduction, which with reductions already effected represents an average of 20 per cent., but it makes his position, and future emoluments, much more secure.
5. "To the war pensioner, the plan involves a reduction of 20 per cent. (in some cases less), but it removes the danger of any sudden stoppage, and provides security for future payments.
6. "To the invalid and old-age pensioner the plan involves a reduction in most cases of 12½ per cent., but it removes the danger of any sudden stoppage, and provides security for future payments.
7. "To all of these a large part of the reduction is counterbalanced by the fall in prices, and in the cost of living.
8. "To the unemployed, the plan provides for a restoration of employment, and in the meantime makes more secure the continuation of sustenance relief.
9. "With the sacrifice distributed over the whole community in this manner, with the lead of Governments followed by all citizens, with the revival of business confidence and activity, a sure foundation will have been laid for the restoration of general prosperity in Australia.

EFFECT OF THE PLAN ON DEFICITS

States, etc.	1929-31 £ millions	1930-31 Estimate £ millions	1931-32	
			Original Estimate £ millions	After making the Agreed Adjustments £ millions
Commonwealth	1.50	13.40	20.40	4.38
New South Wales	5.57	10.48	11.51	5.41
Victoria	1.17	2.60	3.06	1.31
Queensland	.72	.74	1.63	.76
South Australia	1.63	2.20	2.40	1.50
Western Australia	.52	1.52	1.86	1.20
Tasmania	.02	.21	.22	.09
Total States	9.63	17.75	20.68	10.27
Total	11.13	31.15	41.08	14.65*

* Further adjustments reduced this amount to £12.66 millions.

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FINAL RESOLUTION

Just prior to concluding its business, the Conference unanimously passed the following resolution, on the motion of Mr. Hill (Premier of South Australia): -

The representatives of each Government present at this Conference bind themselves to give effect promptly to the whole of the resolutions agreed to at this Conference."

C. - STATE FINANCE

STATE FINANCE, 1936-37

Revenue	Expenditure	Net Loan Expenditure.(a)
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State.	Amount.			Per	Amount			Per	Amount.			Per
	£'000.	£	s.	Head	£'000.	£	s.	Head	£'000.	£	s.	Head.
				d.				d.				d.
New South Wales	49,959	18	12	9	49,885	18	12	2	6,336	2	7	3
Victoria	27,221	14	13	11	27,192	14	13	7	2,617	1	8	
Queensland	16,535	16	16	0	16,815	17	1	9	2,574	2	12	4
South Australia	11,739	19	19	1	111,600	19	14	4	1,245	2	2	
Western Australia	10,185	22	10	10	10,557	23	7	3	2,032	4	9	1
Tasmania	3,489	15	0	10	3,444	14	16	11	815	3	10	
Total	119,128	17	10	11	119,493	17	12	0	15,619	2	6	0

(a) On Works and Services, excludes Discounts and Flotation expenses and deficits.

COMMONWEALTH MINISTRY

The Commonwealth Ministry was reconstituted as from 30th November, 1937, as follows: -

Prime Minister	The Rt. Hon. Joseph Aloysius Lyons, C.H.
Minister for Commerce and Minister for Health	The Pt. Hon. Earle Christmas Grafton Page.
Attorney-General and Minister for Industry	The Rt. Hon. Robert Gordon Menzies, K.C.
Minister for External Affairs, Minister in Charge of Territories and Vice-President of the Executive Council	The Rt. Hon. William Morris Hughes, K.C.
Postmaster-General	Senator The Hon. Alexander John McLachlan.
Minister for Trade and Customs	The Hon. Thomas Walter White, D.F.C., V.D.
Treasurer and Minister in Charge of Development and Scientific and Industrial Research	The Hon. Richard Gardiner Casey, D.S.O., M.C.
Minister for Defence	The Hon. Harold Victor Campbell Thorby.
Minister for the Interior	The Hon. John McEwen.
Minister for Repatriation and Minister in Charge of War Service Homes	Senator The Hon. Hattil Spencer Foll.
Minister without Portfolio assisting the Minister for Trade and Customs, and representing the Postmaster-General in the House of Representatives	The Hon. John Arthur Perkins.
Minister without Portfolio assisting the Minister for Commerce	Senator The Hon. Allan Nicoll MacDonald.
Minister without Portfolio assisting the Treasurer and representing the Minister for Repatriation in the House of Representatives	The Hon. Victor Charles Thompson.
Minister without Portfolio assisting the Minister for Commerce	The Hon. Archie Galbraith Cameron.

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This page last updated 22 November 2012

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